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II Year-End Closing - Year-End Adjusting Entries

The timely completion of Fiscal Month 12 (June) activities is important to the beginning of the year-end process. This chapter describes the process for recording and reconciling June transactions and preparing standard year-end adjusting entries. Several other adjusting entries required for CALSTARS are discussed in Chapter III, Fiscal Month 13 Processing.

IMPORTANT: Use the *new year* Organization Control (OC) Table to run automated CALSTARS processes for June (FM12). The *new year* OC Table must be established by July 1.

COMPLETE JUNE TRANSACTIONS AND RECONCILE

June transactions may be posted to FM 12 after June 30th, however, FM 12 is closed after July 31 and no longer available. Therefore, June activities should be completed and reconciled as soon as possible.

New Year Transactions

Accounting transactions to load *new year* appropriations, allotments, budget plans, encumbrances, etc., may be entered into CALSTARS beginning on July 1. All *new year* transactions should be coded as Fiscal Month 01.

Run FM 12 Labor Distribution

Using the *new year* OC Table, agencies should run FM 12 Labor Distribution as soon as they are ready after the SCO payroll tape is available.

Run FM 12 Cost Allocation/Fund Split

Using the *new year* OC Table, agencies should run FM 12 Cost Allocation/Fund Split as soon as they are ready.

Run FM 12 Variance Allocation/Fund Split

Using the *new year* OC table, agencies should run Variance Allocation/Fund Split (if applicable) as early as possible.

Close FM 12

FM 12 should be closed (set OC Prior Month Open Indicator to T or N) after all June activity is complete. June reports need to be requested, and June reconciliations need to be completed. The SCO normally completes the Fund and Agency Reconciliation Reports a few days after June 30. As soon as CALSTARS receives these reports from the SCO, they are loaded to agency ROPES queues for printing. Review these reports to ensure that all SCO activity has been received and recorded to prevent reconciling items.

USE OF FISCAL MONTH 13 FOR YEAR-END ADJUSTMENTS

A number of accrual entries must be recorded in CALSTARS to accurately reflect the financial position of the agency. These entries usually bring the accounting records into conformance with Generally Accepted Accounting Principles (GAAP). All year-end adjusting entries are entered in Fiscal Month 13.

Use of the Automated Accrual Reversal Process

As described later in this chapter, some year-end adjusting entries are reversed in the new year. Agencies have the option of having their Fiscal Month 13 adjusting and/or reclassification entries reversed automatically when Year-end Open (OC Table Run YEC Indicator set to **E**) is run or manually recording the reversal batches. Exhibit II-1 illustrates the automated accrual reversal process. This process is optional; however, the decision to use it must be made prior to preparing the adjusting entry batches. Specific batching rules must be followed as explained below. This process is only intended for the reversal of those year-end adjusting and reclassification entries that are specifically identified to be reversed in the new year.

Coding FM 13 Adjusting Entry/Reclassification Batches For Automatic Reversal

Fiscal Month 13 adjusting entry and reclassification batches must be coded as follows in order to be included in the automated reversal process:

- ✧ The Batch Type must be **00** (zero zero);
- ✧ The Batch Number must be an alpha-numeric combination within the range **A01 - A99**;
- ✧ The Batch Date and Batch Number combination must be unique (i.e., the same Batch Date/Batch Number combination cannot be re-used); and
- ✧ The batch must be recorded in Fiscal Month 13 (**FM 13**).

If the input batch does not meet all of these conditions, the 'B22-FM/BATCH#/TYPE' online error (invalid fiscal month, batch number and/or batch type combination) is generated. **The B22 error must be corrected before releasing the batch for**

processing. This error is not correctable through error correction after processing the batch. If the error is not corrected before processing, the batch will post to the Error Suspense File with a B22 error and must be **deleted and reentered.**

This process does not evaluate transactions within these batches for reasonableness. All transactions included in a batch coded as described above are reversed in the new year at the time the year-end-open process is run. Therefore, it is important to verify that only those transactions intended for reversal are included in these batches. For example, the A-2 Adjusting Entry involves several entries with various transaction codes. This adjusting entry is reversed with the exception of any entries made using TC 520. Therefore, if the A-2 Adjusting Entry batch is coded for automatic reversal, any transactions using TC 520 must be recorded in a separate non-automated reversal batch. Otherwise, TC 520 transactions will be inappropriately reversed by this process.

Note: Transactions that liquidate a document cannot be reversed.

Processing FM 13 Batches Coded For Automatic Reversal

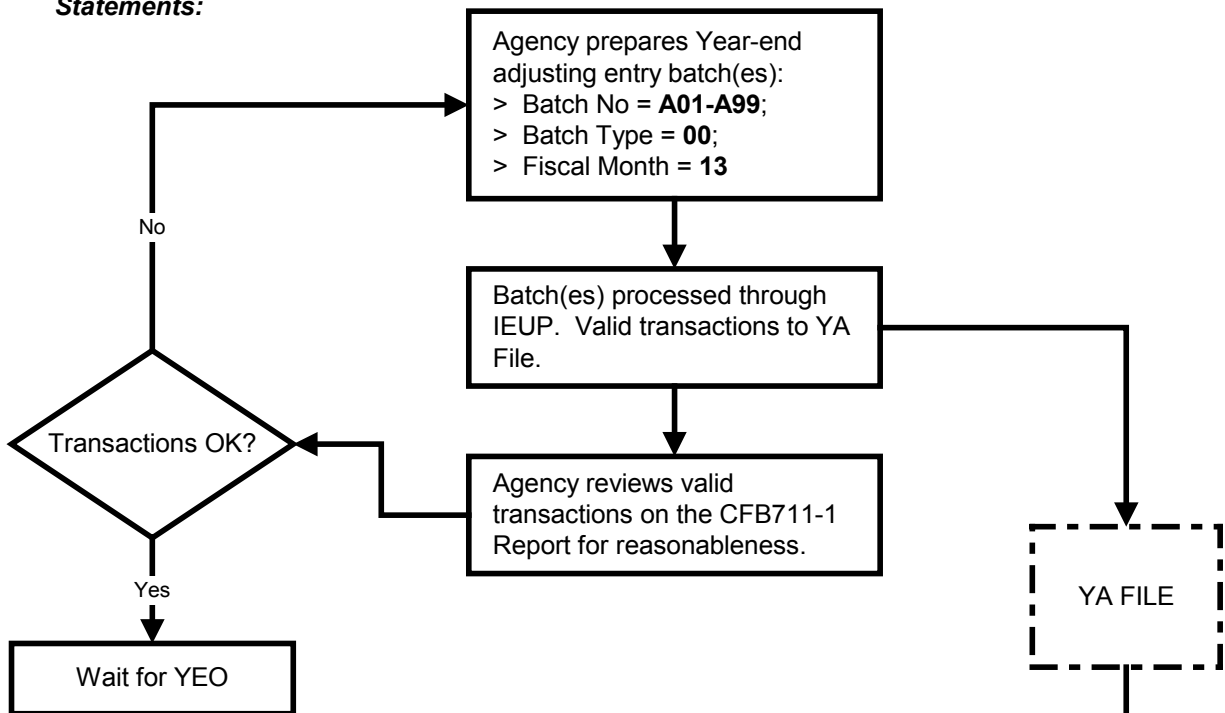
Except for the coding rules for the Batch Header described above and the caution to include only those transactions to be reversed with the same transaction code, there are no special coding or keying rules for the transactions within these batches. The input process is exactly the same as any other batch.

When automatic reversal batches are processed, the system produces a CFB711-1, FM13 Accruals To Be Reversed In New Year Report (Exhibit II-2). This report, routed to agency printers along with the other Input, Edit, and Update Process (IEUP) reports, displays all transactions which posted to the Year-End Adjustment File (YA File) during nightly processing. This report should be reviewed to verify that all posted transactions should be reversed in the new year.

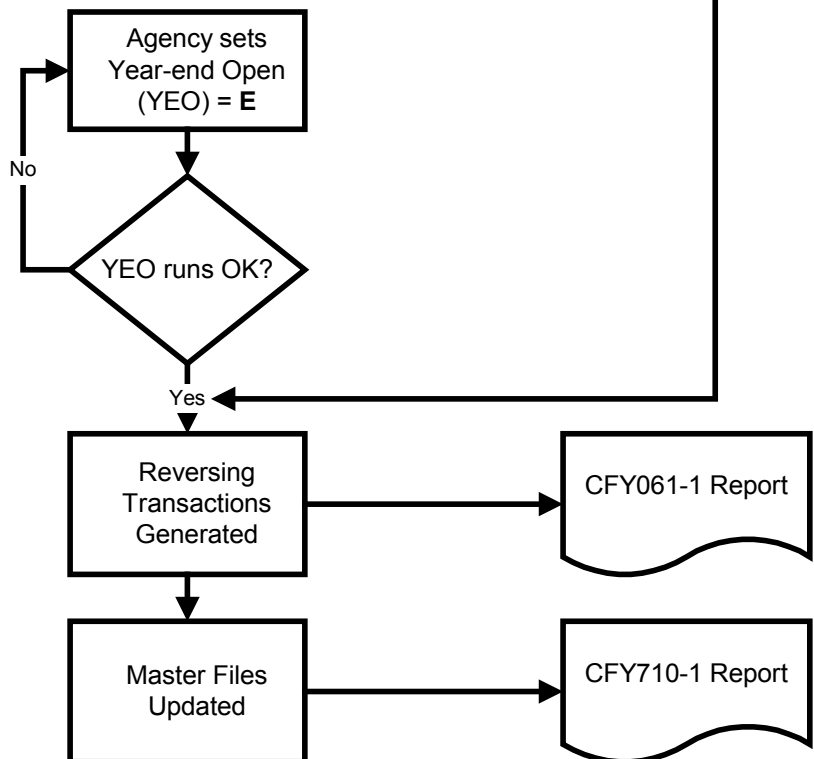
The standard requestable report CSTARY01, Listing of Accruals To Be Reversed In The New Year (Exhibit II-3), lists all records in the YA file as of the date requested. This report should be reviewed periodically during Fiscal Month 13 processing for inappropriate transactions. If inappropriate transactions are discovered, they must be reversed, the coding corrected and re-input. Transactions cannot be deleted directly from the file.

Exhibit II-1

**I. Prior to preparing
Year-end Financial
Statements:**



**II. Carry Forward to
New Fiscal Year:**



PREPARE STANDARD YEAR-END ADJUSTING ENTRIES

The standard adjusting entries required at year end are illustrated in the *State Administrative Manual* (SAM) Sections 10536 - 10551. They are designated as entries A-1 through A-13. All year-end adjusting entries are entered in Fiscal Month 13.

ENTRY A-1: Record Undeposited Receipts

The A-1 entry adjusts the agency's GLA 1110-General Cash and GLA 1120-Agency Trust Fund Cash accounts to accurately reflect the amount deposited in the agency's accounts with the State Treasurer. This entry does not replace routine cash receipt entries, which must be done first. Entry A-1 is required for cash received but not deposited by June 30, including warrants issued by the SCO dated June 30 or earlier. Entry A-1 does not apply to warrants issued to repay the Office Revolving Fund (ORF).

To adjust GLA 1110-General Cash:

TC 530 - A-1 Adj Gen Cash for Undeposited Receipts
Dr. 1190 Cash on Hand
Cr. 1110 General Cash

Note For Automated Year-end Process Participants: TC 530 must be posted with an Appropriation Symbol.

To adjust GLA 1120-Agency Trust Fund Cash:

TC 529 - A-1 Adj Agy Trust Fund Cash for Undeposited Receipts
Dr. 1190 Cash on Hand
Cr. 1120 Agency Trust Fund Cash

Entry A-1 is reversed in the new year.

ENTRY A-2: Adjust Revolving Fund Cash Account

The A-2 entry records the agency's ORF cash balance as of June 30 into the advancing fund. During the fiscal year, all ORF activities are recorded in the Office Revolving Fund (Fund 0998). At year-end, all of these activities must be transferred to the fund that advanced the cash to the Office Revolving Fund. The full amount of the ORF is carried in the advancing fund general ledger during the year as GLA 1130-Revolving Fund Cash or GLA 1400-Due from Office Revolving Fund (Subsidiary Code 14000998). As part of the A-2 entry, several transactions are posted to reflect all ORF account activities in the advancing fund(s) as of June 30. The A-2 adjusting entries must be posted using the Appropriation Symbol for the ORF advance (Account Type 97).

Several A-2 entries are common to all agencies. Other entries are dependent upon:

- ⚙ Whether CALSTARS ORF (Fund 0998) and a Clearing Account are used; and
- ⚙ Whether the Clearing Account and the Revolving Fund advance are in the same fund.

NOTE: Any entries that result in an error message due to an abnormal document balance can be posted using Command **C.3** fund control override procedures (**44, W**) or by changing position '3' (DF BAL-PY13) in the fund-related error severity segment of the OC Table to **W**. (The table entry must be in the same FFY as the transaction.)

A-2 Entries Common to All Agencies

Make these entries in the fund that **advanced** cash to ORF, if applicable.

TC 521 - A-2 Record Year-end Expense Advances ^{1/}

Dr. 1710 Expense Advance

Cr. 1130 Revolving Fund Cash

TC 525 - A-2 Record Year-end Deferred Charges ^{2/}

Dr. 2600 Deferred Charges

Cr. 1130 Revolving Fund Cash

TC 528 - A-2 Record ORF Cash Shortages

Dr. 1316 Accounts Receivable Cash Shortages

Cr. 1130 Revolving Fund Cash

TC 531 - A-2 Record Year-end ORF Cash on Hand ^{3/}

Dr. 1190 Cash on Hand

Cr. 1130 Revolving Fund Cash

TC 534 - A-2 Record Amount Advanced to Bank for Bank Draft Account

Dr. 1160 Cash in Agency Accounts-Bank/Savings and Loans

Cr. 1130 Revolving Fund Cash

^{1/} Combine unreimbursed advances for GLAs 1710, 1712 and 1714 that have not been accrued via the A-8 entry. For the unreimbursed advances accrued as expenditures via the A-8 entry, use TC 527.

^{2/} GLA 2600 do not reflect on the DB1/DB2 reports. Therefore, the SCO/CALSTARS Reconciliation for the Category 97-Revolving Fund Advance appropriation will be off by the amount of the TC 525 entry.

^{3/} Includes SCO warrants dated June 30 or prior to repay the ORF.

ENTRY A-12: Establish Reserve for Deferred Accounts Receivable for Abatements and Reimbursements

The A-12 entry establishes a reserve for accounts receivable abatements and reimbursements estimated to be uncollectible during the next fiscal year.

NOTE: Use Entry A-4 for receivables applicable to reverting appropriations.

TC 513 - A-12 Estab Reserve for Deferred Reimbursements Receivable
 Dr. 8100 Reimbursements
 Cr. 1600 Provision for Deferred Receivables

TC 514 - A-12 Estab Reserve for Deferred Abatements Receivable
 Dr. 9000 Expenditures
 Cr. 1600 Provision for Deferred Receivables

NOTE: If the A-12 adjusting entry is required, FM 13 reconciliation to SCO balances will not agree by the amounts of TC 513 and TC 514 entries.

A-12 entries are reversed in the new year.

ENTRY A-13: Transfer CIST to Fund Balance

Typically, CALSTARS agencies **do not post** the A-13 entry. During the Year-end Closing process, CALSTARS generates the entry to reclassify GLA 1140-Cash in State Treasury to GLA 5570-Fund Balance Clearing for funds identified in the D22 Descriptor Table as *shared* funds. The G02 Post Closing Trial Balance reflects that GLA 1140 has been reclassified to GLA 5570 for *shared* funds. Agencies with *shared* funds should verify the G02 Post Closing Trial Balance reflects that GLA 1140 closed into GLA 5570. If the G02 Post Closing Trial Balance reflects a balance in GLA 1140 for a *shared* fund, then one of the following entries must be posted by the agency. If the G02 Post Closing Trial Balance reflects that GLA 1140 is closed properly to GLA 5570, the agency **does not post** the following entries; CALSTARS will generate the transaction during the automated closing process for *shared* funds.

If Cash in State Treasury has a debit balance:

TC 501 - YEC - To close Debit Balance GLA-Shared Fund
 Dr. 5570 Fund Balance Clearing Account
 Cr. (Input 1140) Cash in State Treasury

If Cash in State Treasury has a credit balance:

TC 502 - YEC - To close Credit Balance GLA-Shared Fund
 Dr. (Input 1140) Cash in State Treasury
 Cr. 5570 Fund Balance - Clearing Account

NOTE: Funds that are identified in the D22 Descriptor Table as *non-shared funds* are not impacted by this entry.

*A-13 entries are **NOT** reversed in the new year.*

PREPARE ADJUSTING ENTRIES FOR TRANSFERS, LOANS AND BOND FUNDS

The following adjusting entries may be posted in FM 13 to accrue activities related to transfers, loans, and bond funds:

TC	PURPOSE	GL DEBIT	GL CREDIT
260	To accrue Operating Transfers - In	1400	9811
579	To accrue Operating Transfers - Out	9812	3110
285	To accrue interest due to General Fund for PMIA loan	9000	3110
L41	To accrue current amount of loan principal due	1330 5380	9830 2110
L42	To accrue current amount of loan principal Due From Other Governments	1500	9830
L43	To adjust GL 2140 for current amount of loan principal Due From Other Government	5380	2140
L44	To accrue amount of loan principal due when no long-term loan has been established	1330	9830
L48	To accrue refund on loan repayment principal	9830	3010